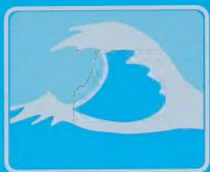


# Del Mar Energy Inc.

*Annual Report 1998*





**The Annual General Shareholders Meetings** will be held at 10:00 am on **Wednesday, June 16, 1998** at the Sandman Inn, Centennial Room, 888 - 7th Ave. SW, Calgary, AB. All shareholders are encouraged to attend. If unable to attend, shareholders are requested to complete and return the Form of Proxy to the Company's register and transfer agent, Montreal Trust Company of Canada.

### Abbreviations

bbls	Barrels
bbls/day	Barrels per day
mbbls/d	Thousand barrels per day
boe	Barrel of oil equivalent
mboe	Thousand Barrels of oil equivalent
boe/d	Barrel of oil equivalent per day
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
WTI	West Texas Intermediate

# To the Shareholders

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Del Mar Energy Inc. entered 1998 having successfully acquired 10% of MORA Oil Ventures Ltd. of Trinidad, West Indies. Del Mar completed a private financing in September 1997 with its agent, First Energy Capital Corporation by issuing 7.9 million share purchase warrants for gross proceeds of \$2,133,000. A portion of the funds was used to satisfy the purchase price of the MORA acquisition.

Mora holds an offshore license in Trinidad composed of about 5,035 acres located in 120 feet of water approximately 10 miles from Galeota Point, Trinidad. On February 18, 1998 Del Mar announced the successful completion of a side track of its MORA 3 well and the recompletion of well 5 resulting in a combined platform production increasing up to 1,100 BOPD from 5 productive wells.

Based on these achievements, Del Mar Energy Inc. entered negotiations with MORA Ven Holdings Ltd. MORA Ven owns 90% of MORA Oil Ventures Ltd. and a 25% interest in an exploration play in the Northern Basin Consortium comprising 275,000 gross acres onshore Trinidad. On August 21, 1998 Del Mar announced that it had signed an agreement to acquire all of the issued and outstanding shares of MORA Ven Holdings Ltd., a Trinidad and Tobago publicly traded company listed on Tier 2 of the Trinidad and Tobago Stock Exchange.

The intended deal would have Del Mar pay MORA Ven shareholders three Del Mar common shares plus one preferred share. The preferred share would be exchangeable at the election of the holder at any time within six months of the closing for \$0.54 Canadian cash, or one common share in Del Mar. Lock up agreements to tender to the Del Mar bid, once made, had been obtained for 55 percent of the outstanding shares of MORA Ven.

However, a key condition precedent to the transaction was the approval and consent by the Inter-American Investment Corporation (a World Bank affiliate) which has a US \$2.5 million project financing loan facility with MORA Oil. On December 23, 1998 Del Mar announced that it had received conditional consent from the Inter-American Investment Corporation, subject to certain conditions requiring satisfaction prior to January 31, 1999.

On January 21, 1999, Del Mar Energy Inc. announced that its offer had been called off. The conditions to the transaction proceeding imposed by the Inter-American Investment Corporation were deemed unacceptable by the MORA Ven Holdings Ltd. Board of Directors.

MORA Ven Holdings Ltd. has however expressed a willingness to pursue other alternatives with Del Mar.

Our Canadian operations near Weyburn, Saskatchewan continue to provide a base cash flow for Del Mar.

In 1999, Del Mar plans to continue its international focus on South America. Merger and acquisition discussions are being held with several corporations with compatible strategies. It is our hope that a business combination involving two or more companies will attract financing and provide renewed shareholder value.

On behalf of the Board of Directors



Brian C. Larsen, *Managing Director*

## Canadian Properties

Del Mar is a operator of several oil producing properties in the Weyburn area of south east Saskatchewan. Net production to Del Mar in December 1998 was approximately 50 barrels of oil per day. A third party report prepared by Dobson Resource Management Ltd., effective June 30, 1998, assigned net proven oil reserves of 72,000 barrels and new unrisks probable reserves of 137,000 barrels to Del Mar.

In 1999, Del Mar is evaluating the potential sale of these properties to provide additional working capital to support our international focus.

## Management's Discussion and Analysis

The financial statements of Del Mar Energy Inc. were prepared by Management in accordance with Canadian generally accepted accounting principles and are consistent with the financial and operating information presented in this Annual Report.

Management has established and maintains internal controls to provide suitable assurance that all assets are safeguarded and to facilitate the preparation of reliable and timely financial information. Timely disclosure may require the use of estimates, in cases where transactions affecting the current reporting period cannot be finalized or known for certain until future periods. Such estimates are based on judgements made by management, using all relevant information known at the time.

Independent auditors appointed by the shareholders have examined the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee has reviewed these financial statements with management and the auditors and has reported to the Board of Directors. The Board of Directors has approved the financial statements.

The Company's cash balance was \$140,374 at December 31, 1998. The company has no long term debt as at December 31, 1998.

Total net revenue after royalties for the year ending December 31, 1998 was \$264,527. Royalties in 1998 were \$42,010. The revenue originated primarily from the Company's oil properties in Saskatchewan. Production expenses in 1998 were \$137,201. General and Administrative expenses in 1998 were \$413,740 which included business development in Trinidad.



Brian C. Larsen  
*Managing Director*

# Auditors' Report

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To the Shareholders  
Del Mar Energy Inc.

We have audited the consolidated balance sheets of Del Mar Energy Inc. as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and cash flow for the years then ended in accordance with generally accepted accounting principles.

Collins Barrow  
Chartered Accountants



Calgary, Alberta  
May 12, 1999


# Consolidated Balance Sheets

Del Mar Energy  
**Consolidated Balance Sheets**  
 December 31, 1998 and 1997

	1998	1997
<b>Assets</b>		
Current assets		
Cash and short-term investments	\$140,374	\$449,223
Accounts receivable	62,091	125,362
Prepaid expenses	8,766	16,737
	211,231	591,322
Long-term investment (note 4)	-	3,432,334
Capital assets (note 5)	448,510	644,808
	<u>\$659,741</u>	<u>\$4,668,464</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$112,261	\$203,140
Provision for future site restoration costs	23,772	18,980
<b>Shareholders' Equity</b>		
Share capital (note 7)	4,928,941	4,931,892
Deficit	(4,405,233)	(485,548)
	523,708	4,446,344
	<u>\$659,741</u>	<u>\$4,668,464</u>

Approved by the Board,

 , Director

 , Director

# Consolidated Statements of Loss and Deficit

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Del Mar Energy Inc.

## Consolidated Statements of Loss and Deficit

Years Ended December 31, 1998 and 1997

	1998	1997
<b>Revenue</b>		
Petroleum and natural gas revenues	\$306,537	\$573,215
Less: Royalties	(42,010)	(94,560)
	264,527	478,655
Alberta Royalty Tax Credits	3,431	5,361
Interest and other income	11,058	52,612
Gain (loss) on disposal of capital assets	(13,256)	60,863
Share of income (loss) from investment (note 4)	19,558	(37,006)
	285,318	560,485
<b>Expenses</b>		
Production	137,201	306,180
Exploration	-	57,138
General and administrative	413,740	311,146
Interest on long-term debt	-	1,485
Depletion and depreciation	202,170	136,036
	753,111	811,985
Net loss before other item	(467,793)	(251,500)
Write-down of long-term investment (note 4)	3,451,892	-
Net loss	(3,919,685)	(251,500)
Deficit, beginning of year	(485,548)	(234,048)
Deficit, end of year	\$ (4,405,233)	\$ (485,548)
Net loss per share (note 7[g])	\$ (0.18)	\$ (0.02)

# Consolidated Statements of Cash Flow

Del Mar Energy Inc.

## Consolidated Statements of Cash Flow

Years Ended December 31, 1998 and 1997

	1998	1997
<b>Operating activities</b>		
Net loss	\$(3,919,685)	\$(251,500)
Add (deduct) items not affecting cash		
Depletion and depreciation	202,170	136,036
(Gain) loss on disposal of capital assets	13,256	(60,863)
Write-down of long-term investment	3,451,892	-
Share of (income) loss from investment	(19,558)	37,006
	(271,925)	(139,321)
Net change in non-cash working capital balances	148	44,035
Cash used in operations	(271,777)	(95,286)
<b>Financing activities</b>		
Repayment of long-term debt, net	-	(280,000)
Issuance of share capital	-	3,860,398
Share capital issuance costs	(2,951)	(222,406)
Net change in non-cash working capital balances	(23,466)	23,466
Cash provided from (used in) financing activities	(26,417)	3,381,458
<b>Investing activities</b>		
Acquisition of Vista Oil Ltd.	-	(1,699,092)
Investment in Mora Oil Ventures Ltd.	-	(1,770,248)
Proceeds on disposition of capital assets	900	572,081
Acquisition of capital assets	(15,418)	(76,509)
Net change in non-cash working capital balances	3,863	(3,863)
Cash used in investing activities	(10,655)	(2,977,631)
Cash outflow	(308,849)	308,541
Cash and short-term investments, beginning of year	449,223	140,682
Cash and short-term investments, end of year	\$140,374	\$449,223

# Notes to Consolidated Financial Statements

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December 31, 1998 and 1997

## 1. Going concern assumption

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles, an underlying assumption being that the company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Due to the company's net losses and cash outflows, the continued existence of the company is dependent upon its ability to raise additional capital to fund future exploration and development or to dispose of its long-term investment (note 4) to continue its operations.

Failure to obtain additional financing or to dispose of its long-term investment as described above may result in financial difficulties which would make the use of the going concern assumption invalid. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities and reported revenues and expenses.

## 2. Significant accounting policies

The consolidated financial statements of the company have been prepared in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for the year necessarily involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

### (a) Company activities and basis of presentation

The company's activities are the exploration for and development of oil and gas properties.

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Vista Oil Ltd., a corporation incorporated in the British Virgin Islands.

### (b) Long-term investment

The company uses the equity method to account for its long-term investment, whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the company's pro-rata share of post acquisition earnings and losses.

Where there has been a permanent decline in value, the investment is stated at net realizable value.

### (c) Exploration and development costs

The company follows the successful efforts method of accounting for its oil and gas exploration and development costs. The initial acquisition costs of oil and gas properties and the costs of drilling and equipping development wells and successful exploratory wells are capitalized. The costs of exploration wells classified as unsuccessful are charged to expense. All other exploration expenditures, including geological and geophysical costs and annual rentals on exploratory acreage, are charged to expense as incurred.

Capitalized costs of producing properties and equipment are depleted and depreciated using the unit of production method based on estimated proven reserves determined by independent and company engineers. Costs subject to depletion also include estimated future site restoration costs. This would include the cost of production equipment removal and environmental cleanup based on regulations and economic circumstances at year-end.

All property and equipment is periodically evaluated and if conditions warrant, an impairment provision is provided.

The amounts recorded for depletion and depreciation of exploration and development costs and the provision for future site restoration are based on estimated proven reserves. By their nature, these estimates are subject to measurement uncertainty and changes in such estimates may have a material impact on the consolidated financial statements of future periods.

# 8 Notes to Consolidated Financial Statements

December 31, 1998 and 1997

(d) Joint venture accounting

Substantially all of the exploration and production activities of the company are conducted jointly with others and accordingly these financial statements reflect only the company's proportionate interest in such activities.

(e) Depreciation

Other equipment is depreciated using the declining balance method at rates ranging from 20% to 100% per annum.

(f) Risk management

The company purchases forward contracts to hedge its exposure to the risks associated with fluctuating oil prices. Gains and losses associated with risk management activities are recognized as adjustments to production revenue at the time the related production is sold.

(g) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the company. The value assigned to the properties upon which the subscribers' funds were expended is the actual dollar amount of the expenditures with share capital being recorded based on cash received.

## 3. Acquisitions

- (a) Pursuant to a Stock Purchase Agreement dated July 15, 1997, the company acquired all of the issued and outstanding common shares of Vista Oil Ltd. ("Vista"). The acquisition was accounted for using the purchase method.

The purchase price was allocated as follows:

Cash	\$1,552
Option to purchase 10% of the outstanding shares of Mora Oil Ventures Ltd. ("Mora")	1,699,092
<b>Total purchase price</b>	<b>\$1,700,644</b>

Consideration for the purchase consisted of:

5,500,000 common shares of the company (note 7[b])	\$1,650,000
Acquisition costs	50,644
	<b>\$1,700,644</b>

- (b) Pursuant to an Acquisition and Shareholders Agreement dated July 30, 1997, Vista acquired 10% of the outstanding shares of Mora. The purchase price was \$1.50 US per share for a total consideration \$1,209,750 US (\$1,705,264 Cdn.).

Pursuant to the Acquisition and Shareholders Agreement, all strategic investing, financing and operating decisions require approval of all the shareholders of Mora. As a result, Vista exercises significant influence over Mora and therefore the investment is being accounted for by the equity method.

The acquisition cost is as follows:

Purchase price	\$1,705,264
Vista's option to purchase Mora (note 3[a])	1,699,092
Acquisition costs	64,984
<b>Total purchase price</b>	<b>\$3,469,340</b>

# Notes to Consolidated Financial Statements

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December 31, 1998 and 1997

## 4. Long-term investment

The company's pro-rata share of Mora's net income (loss) for the period from acquisition to December 31, 1998 was \$19,558 [1997 - (\$36,007)].

The carrying value of the investment has been determined as follows:

Purchase price (note 3[b])	\$3,469,340
Less: Share of loss - 1997	(37,006)
Share of income - 1998	19,558
	<u>3,451,892</u>
Less: Write-down	(3,451,892)
	<u>\$ -</u>

Due to the uncertainty of Mora continuing as a going concern, the investment has been fully written off on the basis there has been a permanent decline in value. As at May 12, 1999, Mora continues to operate and is negotiating to restructure its debt and to raise capital to fund its oil and gas development programs.

## 5. Capital assets

	1998		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties including exploration and development thereon	\$646,508	\$302,054	\$344,454
Lease and well equipment	181,755	103,114	78,641
Other equipment	50,572	25,157	25,415
	<u>\$878,835</u>	<u>\$430,325</u>	<u>\$448,510</u>
	1997		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties including exploration and development thereon	\$632,619	\$173,411	\$459,208
Lease and well equipment	180,226	44,494	135,732
Other equipment	70,206	20,338	49,868
	<u>\$883,051</u>	<u>\$238,243</u>	<u>\$644,808</u>

Future site restoration costs are estimated in aggregate to be \$56,700 (1997 - \$59,500) of which \$4,792 (1997 - \$6,402) has been charged to current loss and is included in depletion and depreciation.

Included in property and equipment at December 31, 1998 are assets with a net book value of \$87,745 (1997 - \$103,470) which have no tax base.

During 1998, as a result of an evaluation of petroleum and natural gas properties, certain properties were written-down by \$94,500. This write-down is included in depletion and depreciation expense. No write-down was required during 1997.

# Notes to Consolidated Financial Statements

December 31, 1998 and 1997

## 6. Long-term debt

On January 21, 1998, the company negotiated a demand revolving loan in the amount of \$100,000 requiring monthly principal reductions of \$3,000 commencing April 7, 1999. The loan bears interest at a Canadian chartered bank's prime rate plus 1.5% per annum. At December 31, 1998, no amount has been drawn on this facility.

The loan is secured by a general security agreement covering all present and after acquired property, a first fixed and floating charge debenture in the amount of \$750,000 over certain assets, environmental indemnity and an assignment of insurance.

## 7. Share capital

### (a) Authorized

Unlimited number of common voting shares

Unlimited number of preferred shares

issuable in series

### (b) Issued

Common shares

	Number	Stated Value
Balance, December 31, 1996	7,962,168	\$1,377,990
Exercise of stock options	309,592	77,398
Pursuant to acquisition of Vista (note 3[a])	5,500,000	1,650,000
Pursuant to private placement (note 7[d])	7,900,000	2,133,000
Balance, December 31, 1997	21,671,760	5,238,388
Balance, December 31, 1998	21,671,760	5,238,388
Less: Share issuance costs		
Balance, December 31, 1996		84,090
1997 additions		222,406
Balance, December 31, 1997		306,496
1998 additions		2,951
Balance, December 31, 1998		309,447
Balance, December 31, 1998		\$4,928,941

- (c) The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.
- (d) Pursuant to an Agency Agreement dated September 11, 1997 between FirstEnergy Capital Corp. (the "Agent") and the company, the Agent offered for sale by way of a private placement, 7,900,000 share purchase warrants ("warrants"). Each warrant entitled the holder thereof to acquire one common share of the company at a price of \$0.27 per share. The warrants were exercised upon the closing of the investment in Mora for aggregate proceeds of \$2,133,000. The Agent received a fee of \$149,310 equal to 7% of the aggregate proceeds. The Agent was also granted an option to purchase 200,000 common shares (note 7[e]).

# Notes to Consolidated Financial Statements

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December 31, 1998 and 1997

- (e) The company has reserved 1,850,000 common shares for issuance under a stock option plan for officers, directors and consultants. The options allow the holder to acquire one common share at the following prices and expiry dates:

Number of Common Shares	Exercise Price Per Share	Expiry Date
350,000	\$0.25	December 10, 2001
1,000,000	\$0.30	September 23, 2002
25,000	\$0.35	April 24, 2003
65,000	\$0.20	June 24, 2003
160,000	\$0.27	July 27, 2003
50,000	\$0.20	October 13, 2003
1,650,000		

During 1997, the company granted 200,000 stock options to FirstEnergy Capital Corp. to be exercised at a price of \$0.27 per share until expiry on September 16, 1999.

- (f) As at December 31, 1998, the following common shares are held in escrow to be released pursuant to a written application to The Alberta Stock Exchange as follows:

Number	Release Date
1,950,000	One share for each \$0.27 of cash flow of a subsidiary.
2,100,000	1,050,000 shares to be released on each of
	October 21, 1999 and 2000.
4,050,000	

- (g) Net loss per share is calculated based on the weighted average number of common shares outstanding during the year of 21,671,760 (1997 - 10,631,919).

## 8. Income taxes

- (a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 44.62% (1997 - 44.62%) to the loss before income taxes as follows:

	1998	1997
Expected tax recovery	\$(1,748,963)	\$(112,219)
Increase (decrease) resulting from:		
Non-deductible crown payments, net of		
Alberta Royalty Tax Credits	17,789	35,508
Resource allowance	26,824	9,330
Share of income (loss) from investment	8,727	16,512
Depletion on non-tax based assets	7,017	19,269
Deferred tax benefit not recognized	1,687,662	37,291
Other	944	(5,691)
	\$ -	\$ -

# Notes to Consolidated Financial Statements

December 31, 1998 and 1997

- (b) The consolidated financial statements do not reflect potential tax reductions available through the application of losses carried forward against future year's earnings otherwise subject to income taxes as follows:

2001	\$41,546
2002	34,953
2004	47,050
2005	235,097
	<hr/>
	\$358,646

## 9. Commitments

### Lease commitments

The company is committed under leases on their office premises for future minimum rental payments as follows:

1999	\$23,856
2000	23,856
2001	23,856
2002	3,976
	<hr/>
	\$75,544

## 10. Related party transactions

During the year, the company paid \$200,862 (1997 - \$223,000) in consulting fees to companies which are controlled by directors and officers of the company and former directors and officers of the company.

These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management is of the opinion that these transactions were undertaken under the same terms and conditions as transactions with non-related parties.

## 11. Financial instruments

### Risk management

In order to manage exposure to fluctuations in oil prices, the company entered into the following forward contracts for 50 barrels of oil per day, the benefits have been realized and recorded in petroleum and natural gas revenues:

November 1, 1997 to June 30, 1998	CDN	\$ 29.54
-----------------------------------	-----	----------

Petroleum and natural gas revenues include gains related to these contracts amounting to approximately \$43,345.

## 12. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced prior to, on or subsequent to January 1, 2000. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved. Therefore, the Company's ability to conduct normal business operations may be impacted. This impact may range from significant system failure to minor errors.



## Board of Directors

Dean W. Curtis (1) (2)

John M. Ellis (1) (2)

Brian C. Larsen

James M. Pasieka

Art Meyer (1) (2)

Michael Barton

(1) Member of Audit Committee

(2) Member of Compensation Committee

## Officers

Brian C. Larsen  
Managing Director

Richard F. McHardy  
Corporate Secretary

John M. Ellis  
Chief Financial Officer

## Head office

800, 840 - 7th Avenue S.W.  
Calgary, Alberta, T2P 3G2  
Telephone: (403) 233-7443  
Fax: (403) 261-2684  
Email: [delmar@cadvision.com](mailto:delmar@cadvision.com)  
Web: [www.delmar-energy.com](http://www.delmar-energy.com)

## Stock Exchange Listing

Alberta Stock Exchange  
Trading Symbol: "DEM"

## Transfer Agent & Registrar

Montreal Trust Company  
Calgary, Alberta

## Bankers

Canadian Western Bank  
Calgary, Alberta

## Auditors

Collins Barrow  
Calgary, Alberta

## Solicitors

Code Hunter Wittmann  
Calgary, Alberta

## Evaluation Engineers

Dobson Resource Management Ltd.  
Calgary, Alberta



800, 840 - 7th Avenue S.W., Calgary, Alberta, T2P 3G2 Telephone: (403) 233-7443 Fax: (403) 261-2684  
Email: [delmar@cadvision.com](mailto:delmar@cadvision.com) Web: [www.delmar-energy.com](http://www.delmar-energy.com)